Statement of Chairman John F. Kerry
Hearing on the President's FY2003 Budget Request for the SBA
and the nomination of Melanie R. Sabelhaus to be SBA Deputy Administrator
Wednesday, February 27th at 9 a.m.

Good morning. Thank you for being here today. We have a busy schedule. First, we will hold a hearing to review the President's FY2003 budget request for the Small Business Administration (SBA), and then we will hold the confirmation hearing of the President's nominee for the deputy administrator of the SBA, Mrs. Melanie Sabelhaus. Mrs. Sabelhaus, welcome and congratulations.

With that, let us begin the budget hearing. We have two panels, the first representing the Administration, and the second made up of representatives who have the day-to-day responsibilities of running some of the SBA's programs. They have been asked to give us their assessment of how the budget, if implemented, would affect small businesses.

Mr. Barreto, welcome, and thank you for testifying today. The first six months on any job are hard, and I know yours has been particularly demanding because of the terrorist attacks. We all know that the SBA's disaster loan program has played an important role in helping home owners and small businesses recover. I appreciate your coming today and hope that you will stay throughout the hearing to hear what all the witnesses have to say about the budget request and other matters that affect their programs.

Before turning to the budget proposal, I would like to thank you for extending the comment period on the proposed 8(a)-HUBZone parity rule by 30 days in response to my request. While I appreciate your prompt decision, I was hoping for a slightly longer extension. I hope you will consider an additional extension should the situation warrant it, say another 30 days.

Also, as you know, I support equality or parity between the 8(a) and HUBZone programs. In fact, I introduced the amendments that passed this Committee to change the HUBZone program from one of HUBZone priority to one of parity between the 8(a) and HUBZone programs. I do have some concerns over the proposed rule, and I will address them in a comment letter to the Agency. I also have questions about this issue, but I will ask those after your testimony.

Mr. Barreto, I have reviewed the President's FY2003 budget for the SBA. Overall it is not as bad as last year's, but it is not good. Once one gets past the request of $798 million, which is far better than the unreasonable request of $539 million last year, and examines where the funding actually goes, in effect this budget is very much like last year's. In some cases it really is worse, and by that I am referring to the 50 percent cut in 7(a) loans. The claim of a four-percent increase sounds good to someone who doesn't have the time to comb through 148 pages of the Agency budget, but that increase is primarily in administrative expenses and staffing, and does very little to help small businesses.

Let me give you examples, starting with business counseling and training assistance, which are so important to small businesses trying to manage their businesses in this troubled economy:

- BusinessLINC. No funding. Second year in a row.
- Small Business Development Centers. Level funding, or a cut if you include carryover funding.
- Business Information Centers. Level funding.
- Women's Business Centers. Level funding.
- Microloan Technical Assistance. Cut funding. Second year in a row.
- PRIME. No funding. Second year in a row.

Now let me list what this budget does to the SBA's successful loan and venture capital programs:

- Microloans, that help the smallest borrowers. These are direct SBA loans funded through appropriations. They got a four percent increase. That's better than last year's ten percent decrease, but the request is 73.5 percent less than the authorized level. The other problem with this request is that you slightly increase funding for microloans but then cut the complementary technical assistance which is essential to the program's good loan performance. The technical assistance was inadequate at last year's level, so lowering it for this year lacks common sense.

- 7(a) Loans. These are funded through appropriations. They got cut by 50 percent. That means that every state's 7(a) loan dollars will be cut in half. The request is 70 percent less than the authorized level.

● 504 Loans. These are funded through fees, so need no appropriations. However, those fees to support the same program level increased, so small business borrowers will have to pay more to get the same loan dollars. Additionally, the request is ten percent less than the authorized level.

● SBIC Participating Securities and Debentures. Both of these venture capital programs are funded through fees and do not require appropriations. They got increased program levels of 14 and 20 percent respectively. In fact, these are the only two credit programs for which the Administration requested the full authorized levels.

This budget just does not make sense given the economy. The Federal Reserve's lending studies over the past year show 40 percent of banks have cut back on lending to small businesses, making loans harder and more expensive to get. Last year business bankruptcies were up a record 13 percent, and 2 million people lost their jobs. College graduates are facing the tightest job market in years, with national unemployment between the ages of 20 and 24 at 9.6 percent compared to 6.9 percent last year. Historically, small business has lead us out of a recession, and this recession is no exception. Simply put, small business stimulates job creation. Last year virtually *all* new jobs were created by small businesses. Faced with these realities, what does the Administration do? Cut its largest small business lending program by 50 percent.

SBA's own budget says that "every $33,000 in loans to small businesses leads to one job created." How is it logical, given all of those facts, to cut your largest lending program by 50 percent? And to compensate for under-funding a core program of the Agency, your solution is to pit the program against the popular 504 loan program. It's just more of last year's budget gimmicks.

Let me also say that blaming the shortfall in 7(a) funding on Congress because we passed, *and the President signed*, a bill to lower fees on the 7(a) borrowers and lenders is misleading. There's not enough money because you didn't request enough. That was your job. Your job also was to come up with a way to calculate the subsidy rate for the program that more accurately reflects its performance. You didn't do that either. You chose a Band-Aid approach so that you could claim that you did something. The fact is, even if the subsidy rate had gone to zero, the fees were too high. So high that when GAO reviewed the loan program's subsidy rate model at our Committee's request, it found that 7(a) borrowers and lenders had been overcharged by more than $1 billion since 1992. Our job was to provide fee relief to borrowers and lenders so that small businesses paid a fairer price when accessing the capital and lenders could afford to make the loans.

According to the President's budget, 7(a) borrowers and lenders will return $179 million to the Treasury this year, FY2002. That's just about what we need for FY2003 to leverage $10 billion in working capital loans. The money is there to fund this program, the Administration just didn't consider it a priority.

If the Administration's budget doesn't adequately fund loans or management help and counseling, where does the extra money go? To Presidential initiatives and administrative costs. I support initiatives that will make the Agency better, and I commend you for allocating resources to foster business creation among Native Americans. But you must also take care of the basic mission of the Agency that you have been entrusted to run and lead. This budget request leaves the challenge to our Committee, to our colleagues on the Budget and Appropriations Committees, and to all the advocates in this room, to restore the shortfalls. Last year, excluding the absurd disaster loan program proposal to increase interest rates on victims, this Committee had to fight to restore $264 million. This year it's about $150 million.

I realize you worked hard to eliminate controversial budget proposals of last year, such as increasing the already high fees on 7(a) borrowers and lenders; cutting the SBDC program and shifting the cost to SBDC clients; and increasing the interest rates on economic injury disaster loans. I appreciate that, and so do the small businesses that get help from these programs.

However, this is of little consolation considering the work before us. This budget lacks adequate funding for its core programs, and the subsidy rate problems are a poison pill for 7(a) working capital loans, 504 real estate and equipment loans, and microloans.

I look forward to your testimony, Mr. Barreto. Senator Bond, would you like to make opening remarks?